

# Metro Housing Outlook:

## Phoenix - Q4 2023

### Overview

- Multifamily fundamentals continue to weaken in Phoenix largely due to a prolonged surge in deliveries. Despite some of the strongest job growth in the nation, new supply has outstripped demand. As a result, the average vacancy rate of 7.5% in Q4 2023 is now almost 3 percentage points above the pre-pandemic level in Q4 2019. Still more supply is underway likely leading to additional softening of in the multifamily market.

### Market Strengths:

- While 14% of jobs remain in the housing sector, above the 10% national average, the economy has diversified over the past 20 years. About 9.4% of jobs are in finance compared to 5.9% nationwide, and 16.9% of jobs are in the well-paying professional services sector compared to about 14.8% nationwide. While job growth in finance and insurance has slowed due to the increase in interest rates, scientific, professional and technical services jobs will grow this year according to Moody's.
- Phoenix has the third-highest rate of in-migration among metro areas with at least 1 million residents. While net migration has slowed from the 64,000 new residents added in 2022, Phoenix added another 38,000 residents in 2023, providing continued strong demand for all types of housing. In addition, the primary renting cohort, ages 20-34, makes up about 21% of the population. This cohort is expected to grow faster than the national average over the next 5 years aided by enrollment at Arizona State University.
- Many migrate for jobs in the well-paying high-tech sector, dubbed the Silicon Desert. It now accounts for about 5.8% of employment, +0.3% above the national average. The high-tech manufacturing core includes major employers Intel and Honeywell Aerospace. Intel is in the middle of a \$20 billion expansion at its Chandler campus with plans to hire more than 3,000 workers by the end of 2024. In April 2024, the U.S. Department of Commerce and Taiwan Semiconductor Arizona announced up to \$6.6 billion in direct funding under the CHIPS and Science Act for additional investment in semiconductor fabrication facilities. In addition, Microsoft, Google, and Apple have invested in data centers throughout the metro.

### Market Weaknesses:

- Water shortages and climate change remain a problem with 2023 recording one of the driest years on record. According to the City of Phoenix's water services website, Colorado River water, which includes water from Lake Meade, supplies roughly 40% of the City's water. Phoenix does have water conservation measures including recycling nearly all its wastewater, which it uses in agriculture and energy production, among other things. It remains to be seen whether such measures will be sufficient.
- Investors have built to rent thousands of single-family homes in the West and East valleys and rehabbed less expensive single-family homes into rentals. This has influenced the inventory of single-family homes for sale, which remains low. Some would-be homeowners may leave the area to find markets with more affordable homes.
- Double digit rent growth in 2021 followed by over 4% rent growth in 2022 and 1.5% growth in 2023, has led to significant deterioration of rental affordability.

### Multifamily Development:

- The pace of development is growing with an estimated 29,400 units underway as of Q4 2023, representing a 7.3% increase in inventory, up from 19,600 units as of Q4 2020. While about 18% of units underway are in Central Phoenix, and another 18% are in the Avondale/Goodyear/West Glendale submarket, development currently appears to be spread out around the metro. However, most of the new supply underway consists of expensive class A units. Only an estimated 5% on units involve subsidies to build new affordable units.

### Multifamily Outlook:

- Based expected job growth, Phoenix will likely find demand for 13,000 new units over the next two years. This falls far short of the 29,000 units underway which could produce a large supply/demand imbalance and soften the multifamily market further.

### Economic Outlook:

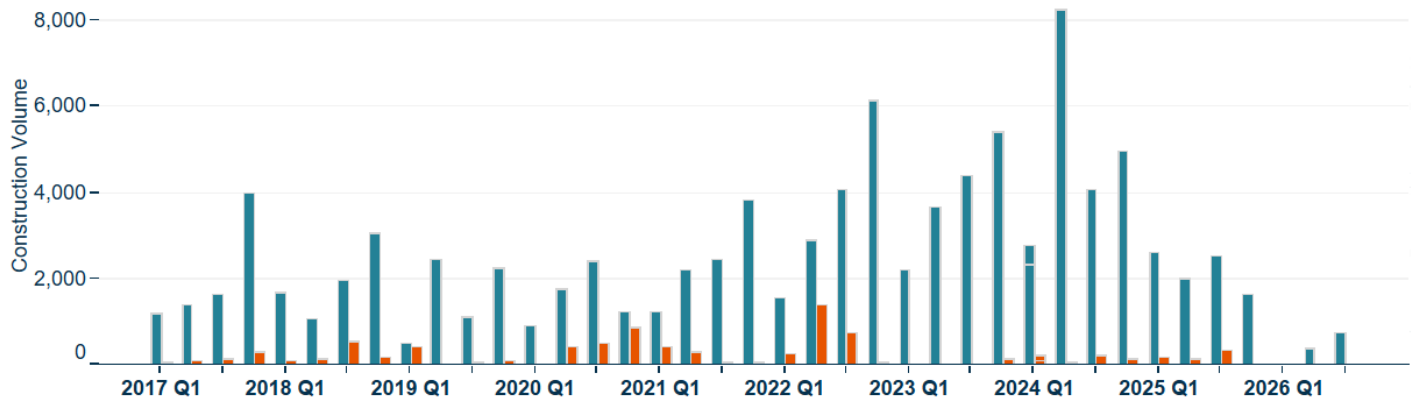
- Long-term, Phoenix is likely to remain one of the stronger economies in the country due to a pro-business environment and low living costs relative to other West Coast metros. This and the vast amount of available land should continue to attract both employers and population long-term. Even so, Phoenix will continue to have high cyclicity due to the economy's dependence on investment and population inflows. In addition, it remains unclear what the long-term impact of climate change and water shortages will be.



## Multifamily Apartment Pipeline

### Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



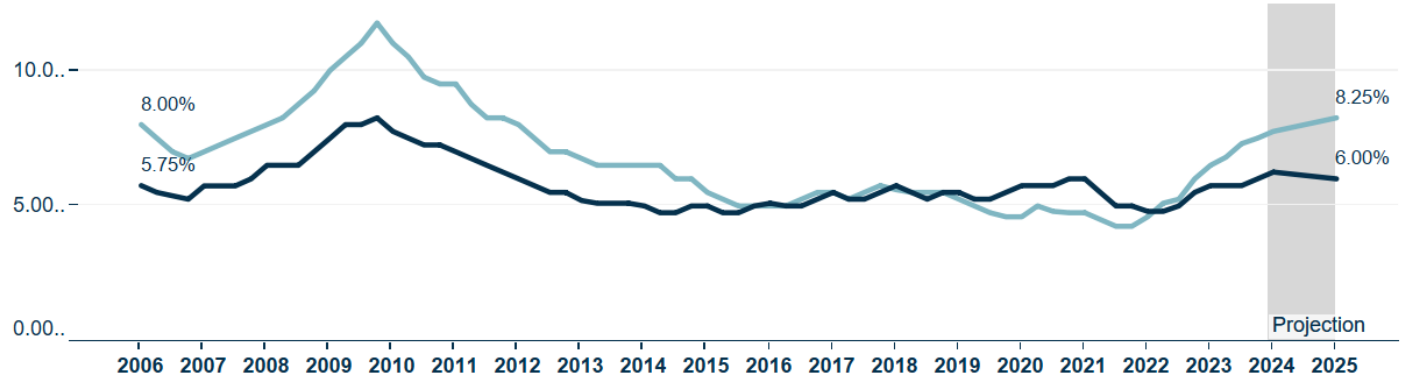
Source: Dodge Data & Analytics SupplyTrack Pipeline

## Multifamily Vacancy & Rent Estimates

### Vacancy Rates

Phoenix | National

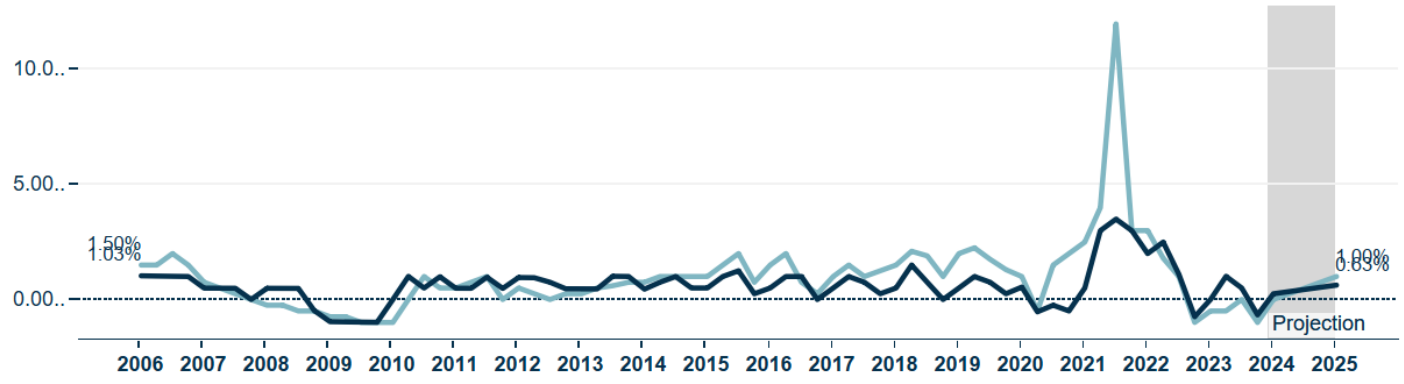
Q4 2023 Vacancy Rate:  
7.50%



### Asking Rent Growth

Phoenix | National

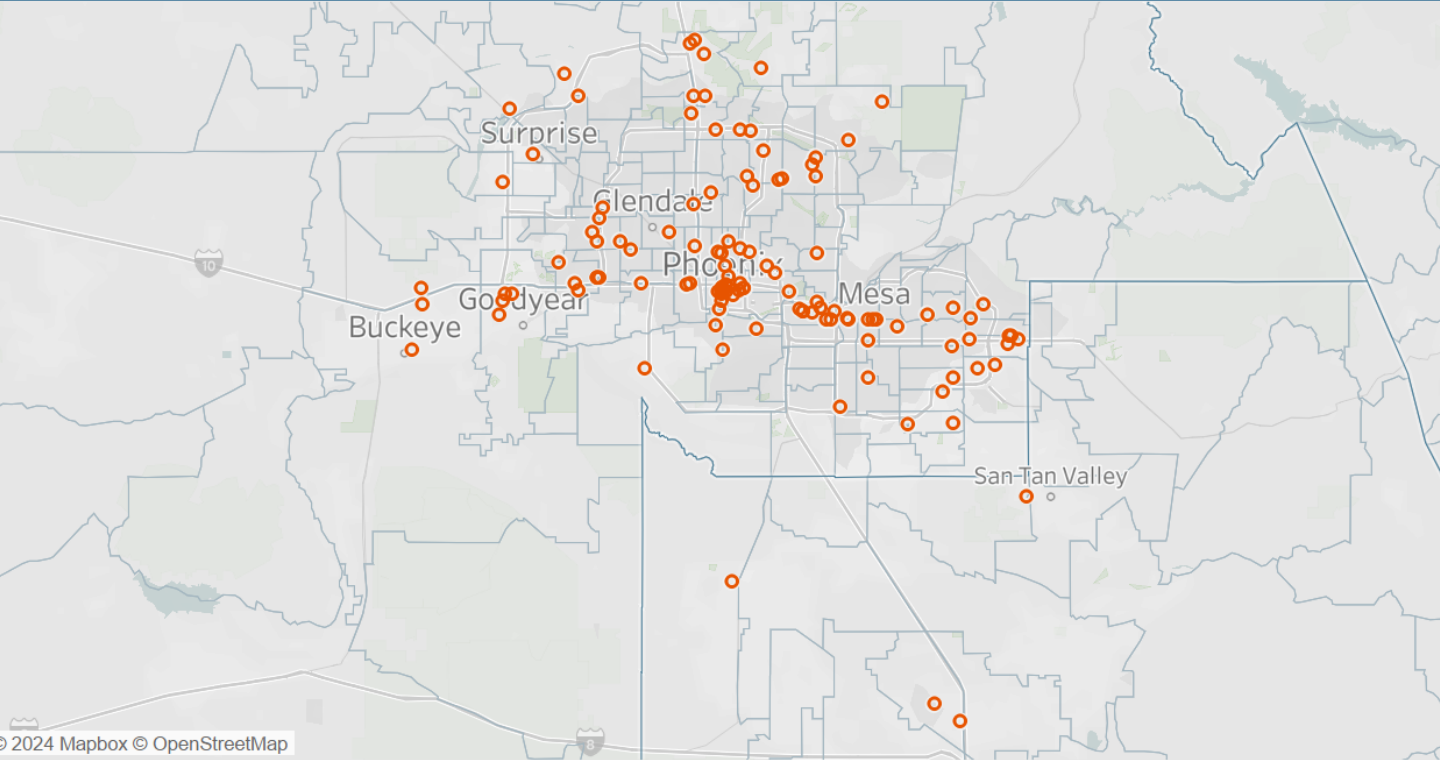
Q4 2023 Asking Rent:  
\$1,550



Source: Fannie Mae Multifamily Economics and Research



## Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Avondale/Goodyear/West Glendale	15	5,288
Central Phoenix	19	5,432
Chandler	2	845
Deer Valley	10	1,871
East Mesa	12	2,514
East Phoenix	3	372
Far West Phoenix	2	404
Gilbert	4	725
North Central Phoenix	6	1,138
North Scottsdale	5	1,481
North Tempe/University	9	3,189
Northeast Phoenix	5	1,186
Northwest Mesa	5	1,059
Northwest Phoenix	2	294
Peoria/Sun City/ Surprise	8	958
Pinal County	4	1,087
South Glendale	2	534
South Phoenix	4	393
South Scottsdale	1	260
Southwest Mesa	2	96
West Phoenix	3	288
<b>Grand Total</b>	<b>123</b>	<b>29,414</b>

Source: Dodge Data & Analytics SupplyTrack Pipeline



# Multifamily Metro Outlook: Phoenix Q4 2023

## Multifamily Economics and Market Research Team

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### Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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